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SUBJECT: OPIC FINANCING FOR LOYAL ESTATE LLC PROJECT

REF: STATE 015783

¶1. Summary: In response to reftel, Post's inquiry into Loyal Estate LLC (Hyatt) project revealed no negative information that would impede issuance of OPIC credit. End Summary.

¶2. Kakha Sharabidze, CEO of the Loyal Estate told Econoff that financing remains in place to construct the hotel although current economic conditions suggest that they pursue a less ambitious project. Sharabidze also noted that shareholder Almat Turtaev (a Kazakhstani citizen) is seeking an opportunity to sell his shares to potential alternative investors. To attract potential additional investment to the project, Mindia Gadaev, Managing Director of Loyal Estate, recently attended a Real Estate Exhibition in Cannes (France) and presented the Hyatt project there. However, there was little interest as Gadaev said institutional investors are focusing on opportunities in distressed projects rather than new construction opportunities.

¶3. Loyal Estate also has been trying to attract an IFC loan but has not yet been successful. Despite this, both the CEO and MD believe that they are still in a position to continue construction (ground work phase already completed), but project completions date has been moved from December 2010 to December 2011.

¶4. In general, post believes that the project has significant merits such as well-known brand, good location, good management, and a qualified construction contractor (Chinese company). The project would create important employment opportunities, send a positive signal about Georgia's investment climate, and fill a market niche (top end hotel) which is currently under subscribed.

¶5. Post notes that the situation in Georgia's construction sector has deteriorated considerably due to the combined effect of 2008 August War, and world economic crisis. Prices on real estate have decreased, reportedly by 20 percent and are expected to decrease further in the near future. Accordingly, Loyal Estate is recalculating projections on sales revenues from apartments. A mitigating effect of the world crisis on Georgia's construction sector has been the sizeable reduction in the prices of construction materials, mainly imported from Turkey and Ukraine. Accordingly, Loyal Estate should be able to take advantage of considerable savings in the construction phase of the project.

¶6. Post also notes that occupancy rates in Georgia have decreased. However, by completion date in 2011, the Hyatt will be one of only two five-star hotels in Tbilisi and occupancy rates are likely to have rebounded. The status of other hotel projects is as follows: Kempinski hotel is delayed - needing at least another year to complete the design stage; Intercontinental Hotel is currently settling privatization issues with the government and is on hold; and a Radisson Hotel is scheduled to be open by the end of 2009 (but the numbers of stars is yet to be determined).

¶7. Post is unaware of any negative information concerning the financial standing of Loyal Estate. Additionally, Post has no

negative information regarding terrorism, money laundering, corruption or other charges about the owners and managers of the company.

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